

**BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268**

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**International Mail Report**

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**Docket No. IM99-1**

**COMMENTS OF ADVERTISING MAIL MARKETING ASSOCIATION**

The Advertising Mail Marketing Association ("AMMA") submits these comments in response to the Commission's Order soliciting views of interested parties on the manner in which the Commission should carry out the mandate of the newly enacted Section 3663 of the Postal Reorganization Act. AMMA's members make extensive use of both international and domestic mail services provided by the Postal Service and, in its representational capacity, AMMA therefore has a very substantial interest in the manner in which the duties imposed upon the Commission by Section 3663 are carried out.

**INTRODUCTION**

AMMA believes that the Commission was entirely correct in its determination to reject the United Parcel Service request for a rulemaking. It is not just that there would not be sufficient time to complete a rulemaking before the Commission's first report is due to be submitted on July 1, 1999. More importantly, the task of analyzing the costs, revenues and volume



international mail products is, in fact, considerably more difficult than may appear. Because of the unique nature of international mail, the term “product or service” -- used in Section 3663 -- in the international mail arena does not have the same meaning as it does in the domestic context and the methods “determined appropriate” by the Commission for “analysis of rates for domestic mail” (39 U.S.C. § 3663) will, at the very least, have to be very substantially adapted to reflect the realities of the international mail system.

### **THE ISSUES**

The issues confronting the Commission in the attempt to apply the standards of Section 3663 are these:

1. The groupings of international mail matter into rate schedules are not the equivalent of the class and subclass structure that exists with respect to domestic mail. For example, matter grouped under the heading “Other Articles” (or OA) includes matter that is utterly dissimilar in handling and cost characteristics -- e.g., regular printed matter, books and publishers periodicals -- but is covered by a single rate schedule. To compound matters, that schedule encompasses “matter for the blind” for which no charge is assessed (on surface shipments). Thus, this subset of mail is supported by all users of international mail. Similarly, inbound mail and transit mail (both of which are listed in the attachment to Order 1226) are not categories at all but simply an indication of the direction in which the mail is moving. In fact, the Postal Service does not establish rates for inbound and transit mail. Rather, it is compensated (if at all) only indirectly through the UPU terminal due structure. Further, certain of the

international rate schedules are country-specific and, in some cases, city-specific. Thus, Global Package Link ("GPL") service in Mexico is "limited to metropolitan Mexico City." See, International Mail Manual ("IMM"), page 678. However, the IMM does not preclude what would be called domestically a 'mixed rate mailing' -- consisting of identical pieces -- some of which are destined for Mexico City and, therefore, eligible for GPL rates and others of which will pay a different rate because they are addressed to a location outside that city. The different rates paid in such cases are not the function of cost considerations, but the limitations which exist under the bilateral agreements governing GPL. In short, the groupings of international mail are nothing more than non-specific rate groupings. The categories of international mail do not represent separate and homogenous "products or services" in the same way that domestic classes and subclasses of mail do.

2. The problem of cost and rate averaging goes considerably beyond the porous nature of international mail rate groupings. Transportation cost in the international area -- whether surface or air -- is obviously a critical component of total cost. There is every reason to believe that -- within parameters reflected by a distance taper -- distance influences total transportation cost. Yet, because of the UPU structure, the rates for groupings of international mail do not significantly differ based on distance. For example, the rate for a one ounce LC letter sent from Washington DC to Japan is exactly the same as the rate applicable to the same piece if it were sent to France. It is perfectly obvious that the transportation cost of the piece traveling from Washington DC to Japan is

considerably greater. But the rate is the same. Obviously, disaggregation of any of the rate groupings within the international mail category by route is utterly impossible. Indeed, such an unbundling would be inconsistent with the universal service concept that underlies the UPU rate structure. Even where the Postal Service has flexibility to reflect distance-related costs in its rate schedules -- as with GPL -- there is no meaningful way to measure cost against revenue on a route-specific basis. GPL shipments can, and almost certainly do, share common transportation for some portion of the distance and any attempt to apportion these common and fixed costs by country would be purely arbitrary.

3. Applying the analyses that the Commission deems "appropriate" in its consideration of "domestic rates" is rendered further untenable because of the terminal dues structure upon which international postage settlements are based. In a very general and loose sense it may be said that terminal dues payments by the Postal Service -- which is a net payor -- vary with some characteristic of mail. But one of the characteristics of mail with which terminal dues vary is inbound and transit mail; and, as noted above, the Postal Service cannot control the rates that it charges for the delivery or routing of these groupings. To the extent that the Postal Service fails to recover the costs of its handling of inbound and transit mail, there may be a deficit. However, it would be simply arbitrary to try to apportion this specific net deficit to rate groupings of outbound international mail. There is just no rational way to apportion terminal dues for outbound international mail by rate category.

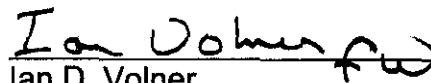
4. Finally, it is virtually impossible to apply the so-called non-cost factors of the Postal Reorganization Act to international mail, all of which is exempt (or has been exempted) from the postal monopoly.

### **CONCLUSION**

In the somewhat extraordinary circumstances that face the Commission under Section 3663, AMMA submits that the sole purpose of the Commission's analysis of international mail should be to determine that two conditions are met. First, no portion of the total accrued cost of international mail should be subsidized by domestic revenues. For this analysis, the Commission does not need additional information from the Postal Service; the data that it has received over the years establish compellingly that the Postal Service has been scrupulous in excluding accrued costs associated with international mail from its revenue requirements and analyses supporting its requests for changes in domestic rates. Second, given the loose and economically inaccurate composition of international mail rate categories, the impossibility of measuring cost variability and the inapplicability of the non-cost factors of the Act, the provisions of Section 3663 can only be read to require, and to expect, the Commission to validate (or if need be to invalidate) the basic proposition that

international mail, taken as a whole, covers its direct and aggregate shortrun variable costs.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Ian D. Volner", is written over a horizontal line.

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